DOCUMENT RESUME

ED 280 152 EA 019 261

AUTHOR Venters, Tommy R.; Schoppmeyer, Martin W.
TITLE The Effect of Statewide Reassessment and Millage Rollback on School Finance in Arkansas.
PUB DATE 10 Apr 86
NOTE 18p.; Paper presented at the Annual Meeting of the National Education Finance Association (Chicago, IL, April 1986).
PUB TYPE Speeches/Conference Papers (150) -- Reports - Descriptive (141) -- Viewpoints (120)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Assessed Valuation; *Change Strategies; Constitutional Law; Educational Equity (Finance); *Educational Finance; Elementary Secondary Education; *Finance Reform; Financial Problems; Problems; *Property Appraisal; *Property Taxes; *State Legislation; Tax Rates
IDENTIFIERS *Arkansas

ABSTRACT

Amendment 59 to the Arkansas Constitution established three kinds of taxable property (real, personal, and utility) and prescribed different reassessment and millage rollbacks for each. This has led to a lack of revenue growth from any source except real property. Because more funds are needed to implement new state standards in the schools, 12 solutions have been suggested for changing the effect of the rollback on personal and utility property. Some of these suggestions are to (1) repeal Amendment 59; (2) classify property; (3) classify property, but remove household goods from tax rolls; (4) create a scheduled reduction in personal property millage; (5) combine real and personal property millages in each school district on the same ratio that exists between real and personal property; and (6) classify both utility and carrier personal property as personal property. Most suggestions would require another constitutional amendment. The most viable solution is to let the provisions of the law take effect and provide new revenue to make up the lack of funds. Other states should: (1) avoid temporary classification of property, if possible; and (2) avoid making a complex rollback plan part of the state constitution. Advantages and disadvantages of each suggestion are listed. (IW)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED280152

THE EFFECT OF STATEWIDE REASSESSMENT AND MILLAGE ROLLBACK ON SCHOOL FINANCE IN ARKANSAS

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

X This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

Martin W. Schoppmeyer

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

by

Tommy R. Venters
Director, Arkansas Department of General Education
4 State Capitol Mall
Little Rock, Arkansas 72201-1021
(501) 371-1464

and

Martin W. Schoppmeyer
Professor and Program Coordinator
Educational Administration
University of Arkansas
251 Graduate Education Building
Fayetteville, Arkansas 72701
(501) 575-2207

Presented at
The National Education Finance Association
Meeting in
Chicago, Illinois
April 10, 1986

EA 019 261

BEST COPY AVAILABLE

In 1978, the Arkansas Supreme Court, in the case of Pulaski County Board of Equalization v. Public Service Commission, ordered that all real property in the state be reassessed finding vast differences between counties in the proportion of value represented on the tax rolls. The 1979 regular session of the General Assembly, predicting tremendous tax increases for real property owners, produced a joint resolution, SJR-1, in order to prevent runaway rises. After several changes, SJR-1 was placed on the November, 1980 ballot as proposed Amendment 59 to the Arkansas Constitution. It was adopted by the voters in that election becoming law in January of 1981.

The amendment is a high complex document. Few, if any, voters really understood anything about it except that it would keep taxes down. They did not recognize that some taxes would be kept down more than others. In a concurrent opinion in DuPree v. Alma School District,[1] the School Finance Equity Case, Justice Hickman noted that--

"...there looms in the shadows Ark. Const. Amend. 59. It deprived school districts of valuably needed tax dollars by granting specific tax favors to certain

1. DuPree v. Alma, 279 Ark 340; 651 SW 2nd 90 (1983).

property owners and freezing to an extent tax revenue."

For the original idea of reassessment and then rollback had some features added to it. So many and so complex were they that the agencies currently charged with the administration of the amendment disagree as to its meaning.

To outline the rollbacks in broad strokes, the amendment temporarily created three kinds of property; real, personal, and utility which included common carriers. The inspiration for this came from the fact that the original suit had questioned only real estate assessment. It had left the propriety of the assessment of personal and utility property alone. Hence, it was assumed that these assessments were proper and correct. The holders of such property, therefore, demanded and received special treatment.

This treatment was as follows. Real property was to be reassessed over a five-year period with fifteen counties per year participating. Unlike the Court Order which had required such reassessment on the basis of actual cash value, the Amendment changed the basis for reassessment to use value. This was a popular idea among some agricultural interests, to say nothing of speculators. When the reassessment was completed, the millage rate was to be rolled back to a figure which would yield no more than a

ten percent increase in receipts from real property to the taxing authority. Originally, school districts had been led to believe that they would surely receive such an increase. When one of the original counties to undergo reassessment produced but a six percent increase, the school districts went to court. There they were told that they were permitted up to a ten percent rise, but were not guaranteed it and that any smaller size increase was permissible.

Yet, this was the only increase possible.

Personal and Utility and Carrier property had different scheduled rollbacks. Personal property yield to the taxing authority was frozen until such a time when the real property millage, applied to personal property, would provide an increase in revenue over that received in the year prior to reassessment. This was to permit the gradually increasing value of personal property both through its growth and inflation to self correct the millage difference. It was originally estimated that some five years might be necessary to see this event take place. Yet of all the school districts only 6 out of 341 have the same millage on real and personal property. For many districts the projected date of equality is well into the twenty-first century.

Utility and Common Carrier property had a scheduled rollback. Its yield to schools and other tax recipients was frozen for five years. At that point, the yield from the new rolled-back real property millage was to be compared with the yield from the old millage rate. The difference was then to be divided by five and the taxes cut by that amount each year for five years. Therefore, within a decade, utility and carrier property would have their millages rolled back to that of real property.

The net effect on school districts, therefore, is that after a slight increase of revenue from real property, personal and utility property yield is frozen. The first without a set thaw and the second systematically cut in the sixth through the tenth year after reassessment. Therefore, the only source of additional local school funds is the property tax either through growth or millage increase. There can be no growth from anything else except state aid.

This constitutes a tax shifting process with the burden being removed from personal, utility, and carrier property and being placed upon real property.

As something of a counterpoint to the amendment, the school finance equity case, DuPree v. Alma School

District, was being heard at the same time the voters adopted the amendment. The case was finally decided by the State Supreme Court in 1983. It declared the method of providing school aid to be unconstitutional. It also declared that the basic program guaranteed to the children of the state was insufficient. Therefore, the state passed a new school finance law, added a penny to the state sales tax to pay for it, and adopted a new set of educational standards which are to be in place in 1987.

The new standards increase the cost of education at both the elementary and secondary levels. At the former level, permissible class sizes are cut according to grade level with primary classes the smallest. At the latter grades more electives are to be offered, and the minimum number of courses for graduation are raised. As a result, more classrooms must be provided and more teachers hired. This costs money.

But the state has already raised its contribution and therefore, the only source is local funds. But local funds can only be increased by increasing the property tax. Far from undergoing any growth since most property in the state is farmland which is falling in value, an increase in the revenue from this source must be in the form of increased millage sufficient to

overcome the falling farm assessment and to raise enough to pay for the new standards. Therefore, over two-thirds of the state districts have sought millage increases in 1985 and 1986.

The penalty for not being able to meet the new educational standards is consolidation. This is a threat readily understood by and readily carried out in small districts. It is not so easily seen or done in large districts. Large districts either do not believe that it can happen or dare the state to do it. Most large districts have defeated tax increases at the polls. A number cannot meet the standards. They are being squeezed. Their consolidation is a matter of dispute.

State aid probably cannot be raised sufficiently. An appellate court has ordered the state to pay for the excess cost of desegregation in Little Rock. Estimates have placed that amount more then ten percent of the total state appropriation for school aid. This must come from aid due to be paid to other districts.

In its 1985 session, the General Assembly recognized that a problem existed and established a commission to study the effect of the Amendment. The Commission has been faced with a basic problem in that although costs are rising, the local tax yield is prevented from rising.

Therefore, the solution would seem to be in unfreezing the growth of local taxes. A number of solutions have been suggested to the Commission. Each, however, has its drawbacks.

1. Repeal Amendment 59.

To accomplish this, organization and money are essential. No group in the state has come forward to help collect the necessary petition signatures to get a repealing amendment on the ballot. Many interest groups favored in the amendment strongly oppose any change in it. The legislature could put the matter on the ballot, but it will not meet until 1987. A vote could not be held until 1988 and the amendment could not be law until 1989. This is two years after the educational standards are to be in place.

A repeal is much easier talked about than done.

A simple repeal would cause a potential legal problem. Since property has been reassessed at use value not actual cash value as ordered by the court, it would again have to be reassessed to meet the requirements of the court order which would no longer be superceded by Amendment 59.

2. Classify Property

This would mean changing the assessment ratio appearing on the tax rolls from the present twenty per-

cent for everything, to say, thirty percent for personal and utility property. This action would raise the total assessment of such property to the point or close to the point where the new lower millage will yield an equivalent amount to the old income and growth can be anticipated.

The drawbacks are that this too would require a constitutional amendment for which support is lacking and opposition is not. It would also require more precise estimate of the ratio needed to accomplish the goal. An amendment to raise taxes could probably not be passed.

3. Classify property, but remove household goods from the tax rolls.

The idea behind this would be to do the same thing as simple classification, but to at least seem to cut the taxes for individuals by no longer assessing their household goods for tax purposes. Most individuals would only then pay personal property on automobiles, trailers, livestock, and boats. The burden would fall on farms and businesses.

The drawbacks are several. Again a constitutional change would have to be accomplished. The removal of household goods would lower the tax base and, therefore, a higher new assessment ratio would be needed. If this

were set too high, the idea would be defeated. If it were set too low, the resulting tax base would be about the same as at present and a good deal of effort would have been expended for nothing. The partial tax relief feature might make this idea easier to sell.

4. A scheduled reduction in personal property millage.

Just as in the case with utilities and carriers, a systematic reduction in the personal property yield over a five-year period would even out with the new millages more rapidly than will happen under current conditions.

The drawbacks to this are multiple. First, there is a question over whether or not such an approach requires constitutional amendment. Some attorneys feel that an act of legislature might suffice, basing such reasoning on the intent of Amendment 59. A court might have to settle this. Second, it would systematically further reduce revenues just at the time they were most needed. Such a reduction would have to take place before growth. Thus, rather than having revenue frozen, school districts would have fewer funds. This idea, however, has attracted more interest than any other proposed solution.

5. Combining real and personal property millages in each school district on the same ratio that exists

between real and personal property.

This would result in a combined millage rate on both forms of property and provide for growth in revenue from both. The drawback is that the legality of such a move would be in question and unless the constitution were amended, a court action would surely follow. The state tax assessors association is on record in opposition to this move, although, it has other adherents. It would result in changing the millage on real property without a popular vote which might not prove acceptable.

6. The classification of Utility and Carrier Personal property as Personal property and not Utility and Carrier property.

This would mean transferring utility and carrier property from the scheduled millage rollback for that classification. Only real utility and carrier property would be a part of the five-year scheduled reduction.

In fact, this has been done in at least one county by its local telephone company. The result is that the utility personal property pays less in taxes than it would have had if it remained classified as utility property. This is because its yield rather than being frozen for five years has been cut due to a reduction in millage on personal property due in part to its inclusion in it. The amount of personal property has

increased. Its yield is frozen. Hence, the millage is cut and each piece of personal property pays less. The whole package results in fewer dollars for the school districts.

The legal possibilities of the alternative have not been explored as it would seem to defeat the purpose of a change in Amendment 59.

8. A Reassessment of Personal Property or the required use of the same estimating procedures by all County Assessors.

State law requires a yearly reassessment of personal property. Historically, this has been more a matter of form rather than substance. Household goods are normally estimated at the same level while automobiles are valued differently, depending on Blue Book values. It would seem then that home furnishings are probably severely undervalued. Some, but not all, assessors have reassessed household goods using the higher reassessed values of homes to estimate it. In these counties, personal property assessment has grown to an amount where the equalization of the millages is not far off. In the rest of the state this has not happened. The result is that where personal property millage has fallen, schools face cuts in their state aid because the formula used to determine it "charges" them at the rate

of 45 mills on personal property. When a district is collecting only 35 mills as a result of growing assessment while the state is making believe it is receiving 45, a district is considered wealthier than it is and receives less state aid. Hence, the process of rolling back personal property millage hurts districts where the rollback is being accomplished while rewarding those where the personal property rolls are not increased and a high millage is being received.

There is no excuse for this. Personal Property must be treated in the same fashion by each county assessor. This particular problem can be addressed by legislation and should be.

9. Classification of the concept of a new tax for a new purpose.

Amendment 59 states that its assorted rollbacks do not effect a new tax for a new purpose. It is the opinion of the state's Attorney General that a millage increase for a new school building is such a tax. Bond underwriters, however, disagree and insist that the yield from real property tax alone must be sufficient to guarantee the issue. This quandry can only be solved by court action. Such an action might be undertaken by a consortium of school districts as was the case with the school finance suit. Until the question is answered

only the real property owner will be paying millage increases.

10. State assumptions of the cost of maintenance and operation of all schools with the local property tax paying only for buildings and "enrichment."

This proposal was made to the 1985 legislature session and numbered SJR-10. That act would have made this move a constitutional amendment. Such a status would prevent a suit for educational equity as the act would make such inequity constitutional.

Equity in education, which means not equal dollars per pupil, but equal access to an educational program, can be achieved in a number of different ways.

Although full state assumption of all educational cost would make a highly equitable situation such as Hawaii, a partial assumption does not. Districts with low property assessments will have to strain to provide buildings while wealthy districts will have no difficulty in providing a high quality program under the guise of enrichment.

This proposal would tend to alleviate part of the current problem by lessening the dependency on local taxes. It is a short-run cover up. In the long run, it will strain the state's resources, make school aid the captive of changes in state tax collections

even more than at present, and guarantee educational inequity.

11. Freeze the yield from both personal and utility property taxes until the new real property millage equals the frozen amount, thus, removing the scheduled roll-back in utility taxes.

This alternative is almost the opposite of proposal number 4. Rather than speeding up millage equalization, this would slow it down. The effect would be no growth from personal or utility property taxes, but it would avoid cuts in them which its opposite solution guarantees. This would not solve the problem, but would avoid losses. It would also probably require a constitutional amendment which without general agreement as to its acceptance might well prove impossible.

12. Leave the situation alone.

This really means letting nature, or at least Amendment 59, run its course. Realistically, however, this would require some additional taxes either at the local or state level to make up for the shortfall in revenue caused by the rollback. This would require only legislation or local voter approval. The latter is not a viable alternative for many districts which have twice refused millage increases to meet the cost of the new educational program. Hence, some effort must be

made at the state level if the state really expects to see its new program in operation.

This particular alternative seems to meet with less opposition on the surface than the others. Opposition will form from the groups effected by any tax increase, extension, or new levies.

The conclusion which must be reached is that other states caught in a reassessment and millage rollback situation would do well to avoid two features from Arkansas experience.

First, avoid temporary classification of property if at all possible. It creates confusion, feelings of unfairness, and prevents tax income growth.

Second, avoid making a complex rollback plan part of the state constitution. Such a move makes the corrections of unforeseen problems almost impossible.

Summary

Amendment 59 to the Arkansas Constitution established three kinds of taxable property: real, personal, and utility, and prescribed different reassessment and millage rollbacks for each. This has resulted in a lack of revenue growth from any source save real property at a time when more funds are needed to implement new state standards in the schools. Hence, some way of changing the effect of the rollback on personal and

utility property is needed, especially on personal. Some twelve solutions have been suggested, most of which require another constitutional amendment. Such an amendment would be difficult to place on the ballot and pass. The most viable solution is to let the provisions of the law run their course and provide new revenue to make up the shortfall.

Other states are advised to avoid temporary property classification and making the rollback plan a constitutional matter.